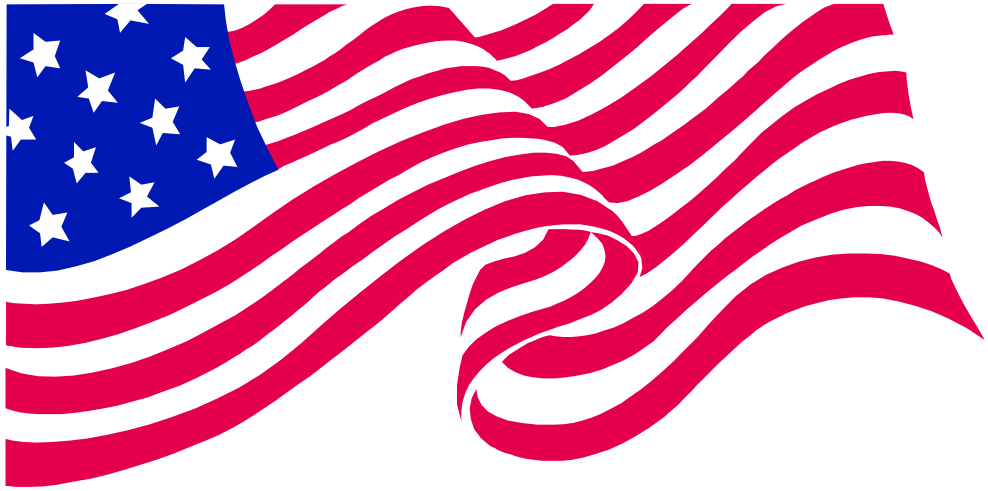

Economic Trends Report

Egypt

September 2003

Embassy of the United States of America

This report is a product of the **ECONOMIC AND POLITICAL SECTION** of the American Embassy, Cairo, Egypt. The Embassy welcomes questions or comments on this report. Comments should be directed to:

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MAJOR TRENDS AND OUTLOOK

Despite a mixed record on economic growth and reform performance from mid-2002 through mid-2003, there is cause for optimism about the Egyptian economy. External shocks and government delays in implementing necessary reforms have left the economy lingering in an extended slowdown, but the economy weathered the Iraq war better than expected, and signs of a modest recovery exist. Overall economic growth for the fiscal year which ended June 30, 2003 (FY 02/03) probably was around 2%. Significant, if incomplete, economic reform measures over the past year, including a more flexible foreign exchange policy and banking sector reforms, point to a new reform activism after three years of policy drift. The growing budget deficit, however, is a major cause for concern. If reform momentum continues over the next year and there are no additional exogenous shocks, the prospects for a modest economic turnaround beginning in late 2003 or 2004, with growth at 3-4% annually, are good. Longer-term prospects depend on the government's ability to tackle fiscal, customs, and other key reforms necessary to improve Egypt's business environment.

Private sector output probably fell in the second half of 2002 (if not as steeply as in the previous two years), but appears to have stabilized in the first half of 2003. Government spending continued to grow sharply. Egypt's tourism sector, its largest foreign exchange earner, posted a modest recovery from its low point in FY 2001/2002, but uncertainty surrounding the war in Iraq limited that rebound in early 2003. Egypt also registered higher oil export earnings (because of higher world oil prices) and an all-time record for Suez Canal revenues (largely because of increased military traffic). Gas production continues to grow. Limited exports via a pipeline to Jordan have begun, while liquefied natural gas (LNG) exports should start coming on line in 1-2 years. Other sectors, including construction, heavy industry, and durable goods were slow in 2002 although there were some signs of recovery by mid-2003, particularly for cement and steel. The banking sector, despite problems with bad debts and foreign exchange availability, saw significant reform steps during the year. We estimate the cost to the Egyptian economy of the war in Iraq was $1 billion/1% of GDP or less, despite earlier projections of much higher economic losses. Discussions continue with aid donors on possible balance-of-payments assistance to cushion that impact continue.

Egypt's overall balance of payments has shown continued improvement over the past year. The merchandise trade deficit narrowed as imports, slowed by the continuing recession and difficulty in obtaining foreign exchange, remained low, and the value of exports, particularly of petroleum, increased. The government's decision to "float" the pound in late January and the pound's subsequent depreciation has contributed to the improved trade balance. The services balance also improved on slowly recovering tourism and the record Suez Canal revenues. Although capital flight decreased, foreign investment flows remained sluggish, keeping the capital and overall balances in the red.

The government's decision in January 2003 to adopt a more flexible exchange rate regime ended two years of tinkering with a crawling peg system. The pound has depreciated around 25% against the dollar since then, and even further against the Euro. Foreign exchange availability, although improved, remains constrained and the illegal parallel market continues to exist, although at a much-reduced premium over the legal rate. The establishment of a surrender requirement for all foreign exchange generating transactions has had limited success in improving dollar inflows to the banking system. In line with a more flexible exchange rate, the Central Bank has announced plans for a more activist, inflation-targeting monetary policy. Monetary policy favored lower interest rates in late 2002, but tightened somewhat after the pound's float in January 2003. Bank lending rates remain high and credit availability limited. The Central Bank's success in pursuing a free-market driven monetary and foreign exchange policy will depend upon three key issues: the strengthening of its monetary policy expertise, the development of appropriate monetary instruments, and the degree of independence it has from fiscal and other policy demands.

The devaluation associated with the transition to the free exchange rate system contributed to a large increase in wholesale price inflation in 2003. Governmental price controls and subsidies limited the impact on much of the population, but contributed to a large increase in Egypt's already substantial budget deficit. An increase in government expenditures of over 10% annually, combined with revenues that remain well below targets, pushed the budget deficit towards worrying levels.

Privatization of state-owned assets has remained very slow, but the stock market, buoyed by the float of the pound and a quick conclusion to the war in Iraq, rebounded strongly in the first half of 2003. Several high-profile foreign acquisitions in late 2002-early 2003 showed that Egypt still holds interest for foreign investment, but high tariffs, severe customs and port inefficiencies, and bureaucratic red tape continue to hurt Egypt's competitiveness both domestically and internationally.

Despite the problems noted above, Egypt still has strong factors in its favor. Foreign debt and debt service remain low, with most debt long-term and concessional. Egypt's foreign exchange reserves are capable of covering more than ten months of imports, and the outlook for some sectors of the economy, particularly tourism and gas, is bright. While Egypt's economic prospects will continue to be subject to global and regional shocks, promising opportunities for growth and development exist.

The government also made progress on several key legislative reform steps in the first half of 2003. These included a new labor law that addressed many business concerns with regards to labor relations, a new banking law that sets the stage for further efforts to reform the banking sector and for a more activist monetary policy, issuance of implementing regulations for the comprehensive intellectual property rights law passed in 2002, and measures to conform money laundering law/regulations to international standards. As in the past, the benefit of these measures will come only with effective implementation (which has been lacking in some areas). Comprehensive tax and customs reform is reportedly on the parliamentary agenda for 2004. Continued progress on the reform agenda will be necessary if the Egyptian economy is to attract the domestic and foreign investment it needs to return growth to pre-2000 levels of 4-6%.

KEY ECONOMIC TRENDS AND ISSUES

Macroeconomic Outlook: Egypt's economic performance and reform program in the 1990's gained plaudits from international observers for increasing growth while sharply reducing inflation and the budget deficit. However, the combination of external shocks in 1997-98 (terrorist attacks, oil price collapse, Southeast Asian economic crisis) and 2001 (September 11) with a slowdown in reform efforts has reduced growth sharply since 1999. Official figures put real growth for the fiscal year ending June 30, 2002 (FY 2001/2002, or 01/02) at 3.2% and estimated growth for FY 02/03, which ended June 30, 2003 at 2.5%. With annual population growth at around 2%, that would put real GDP per capita growth at under 1%. Most outside observers believe growth for FY 01/02 was in the zero to 2% range, while estimates of growth in FY 02/03 are in the 1.5-2.5% range, quite similar to the government's estimate. These figures combine strong growth in government expenditures (averaging over 10% annual increases) and a few other areas with stagnation or decline for most of the private sector, although the private sector probably fared better in FY 02/03 than the previous year. Data from the Egyptian Government's recently developed industrial production index and industry sources appear to indicate that this decline halted or even began to reverse itself in the first half of 2003.

The Egyptian government estimated inflation (from the consumer price index) at 2.4 % for FY 01/02 and a slightly higher 3.9% over the 12 months from May 2002 to May 2003. The wholesale price index, however, rose 18.5% from May 2002 to May 2003, implying stronger underlying inflationary pressures. A variety of subsidies and price controls protect consumers, and inflation in housing costs is very low, but we believe the full impact of price increases may have been at least in the 7-10% range. The wholesale index may be a better reflection of the increase in the cost of living for the middle and upper class that rely less on subsidized commodities and services and more on imported ones.

Unemployment is officially estimated at 9.9% in FY 02/03, up from 9% in FY 01/02 and 9.2% in FY 00/01. The previous years' figures reflect upward revisions in June 2002 and June 2003. Other observers suggest the effective rate of unemployment is significantly higher. Underemployment and reliance on the informal economy (often estimated at one third to one half the size of formal GDP) are also major features of Egypt's economy, as in most developing countries. Government figures estimate that, out of a total work force of 20.2 million and total employment of 18.2 million, 6.9 million individuals are employed in the "irregular private sector," compared with only 5.1 million in the formal private sector, 5.3 million in the government, and 900,000 in state-owned enterprises. Egyptian governmental and private estimates put the number of job seekers entering the labor market annually at 500,000-700,000. Even during the high growth years of the 1990s, employment creation did not fully meet the demand for jobs. The sluggish growth of recent years has widened the gap between the number of job seekers and available employment, particularly for the better educated.

Foreign debt increased slightly in 2001 and early 2002 as a result of the Egyptian government's floating of a $1.5 billion Eurobond offering and other borrowing, but remains comfortable at under $30 billion, or roughly one third of GDP. Over three quarters of that debt is sovereign, with a major portion of it concessional and long-term. Debt service remains comfortable, at 10.5% of current account receipts for the first three quarters of FY 02/03.

Despite these positive debt figures, international rating agencies Standard and Poor's and Fitch both downgraded Egypt's sovereign credit rating in mid-2002 from the investment grade of BBB- to the speculative grade of BB+. In August 2003, Standard and Poors (S&P) also downgraded Egypt's long-term sovereign local currency rating from BBB to BBB- and revised the outlook for all of its local and foreign currency ratings from Stable to Negative. Reasons cited by both agencies were chiefly the expanding fiscal deficit and domestic debt, followed by continuing problems in foreign exchange availability, and the overall slowdown in economic reform.

Fiscal Developments: Many observers, including international financial institutions and sovereign rating agencies, have cited the growing size of the budget deficit as one of the biggest challenges facing the government and a potential threat to economic recovery.

In 2002, the government revised its budgetary accounts to show three increasingly broad measures of the budget and deficits: a narrow budget that includes only line government agencies and programs; a broader definition that includes transfers to or from independent state-owned agencies, and a third definition that also includes the social insurance funds (social security), currently in surplus because of Egypt's growing working-age population. Earlier estimates of the budget deficit were based on features of the first and second figures; the government now appears to have adopted the broadest definition as its benchmark of the deficit. Unfortunately, the format in which the budget is presented to parliament does not match the IMF format in which budget results are reported, making comparison of past budget results and future estimates difficult.

The government has revised its estimates of past budget deficits upwards several times in recent years. Based on the government's current reported figures, the budget deficit grew from 5.5% of GDP by the narrowest measure and 2.2% of GDP by the broadest measure in FY 2000/01 to 5.8% (narrow) and 2.5% (broad) in FY 01/02. Based on previous experience, we believe the latter figure will eventually be revised upwards. Through the first three quarters of FY 02/03, the reported deficit was 6.3% (narrow) and 4.8% (broad). End-of-year transfers from the social investment funds' surplus and other revenue streams will reduce that somewhat, but we believe the final 02/03 deficit figures will be significantly higher than in 01/02. In May 2003, Egypt's semi-autonomous Central Auditing Agency severely criticized the government's fiscal management and particularly its failure to report budget results to parliament within the mandated period.

The FY 03/04 budget (July 2003-June 2004) puts total expenditures at LE 159.6 billion (an increase of LE 18 billion, or 11%, over the originally planned budget for FY 01/02) and total revenues at 130.9 billion, including the social investment funds (government pensions) surplus of LE 13.1 billion, for a total deficit of LE 29 billion. The deficit will be financed by Treasury bills and bonds (LE 27.7 billion) and other local and foreign loans (LE 1.3 billion). As noted above, these figures do not match the new budget accounting methods noted above in their entirety. They appear roughly comparable to the broadest definition of the budget, including the social insurance funds surplus, but it is not clear how they net out debt balances between the National Investment Bank, Social Insurance Funds, and the government's budget. The Minister of Finance reported to the People's Assembly that the projected budget deficit as a percentage of GDP would increase from 5.4% in FY 02/03 to around 6.3% percent in FY 2003/04, based on a GDP of LE 430 billion (in current prices) and a real GDP growth rate of 3%. In fact, the Minister's statement actually reported the budget deficit as LE 42.1 billion (not including the pension surplus), but the calculation of deficit/GDP is clearly based on a deficit inclusive of the pension surplus. He said improved economic conditions would result in a decrease of the budget deficit to 5% of GDP in FY 2004/05. The People's Assembly approved the budget in June 2003.

In addition to traditional social objectives and the protection of the poor, the government's stated budgetary priorities include increasing public revenue, effective financial management, restructuring public debt, and promoting growth in GDP and Egyptian exports. The largest proportion of the budget, at LE 50.3 billion, or more than 30%, is earmarked for social expenditures. A further LE 45 billion will pay for servicing principal and interest on the government's domestic (LE 30 billion interest, LE 8 billion principal) and foreign (around LE 3.5 billion each for interest and principal) debt. Nearly one quarter of the budget, or LE 38.4 billion, will go to paying the public sector wage bill (including the annual 10% wage increase for government employees). The budget projects LE 8 billion for subsidies covering basic commodities and services, principally sugar, bread, and transportation. According to the Minister of Finance, however, indirect subsidies for energy products total LE 16.7 billion, including below-cost sales of butane gas and diesel to consumers and of natural gas to utilities and industry. Even this figure may understate the true cost of providing below-market price energy (see energy section). The LE 19.9 billion-investment budget will support government "mega-projects" such as the Toshka agricultural scheme (see agriculture section), Al Salam canal to carry irrigation water to North Sinai, and the East Port Said development project, as well as other infrastructure priorities.

Projected total revenues for FY 03/04 (not including the Social Insurance Funds surplus) increased by 4.5% over the FY 02/03 planned figures to LE 116.49 billion. Sovereign revenues of LE 77.5 billion include personal and corporate income tax revenues, projected to increase by 6% over the FY 01/02 plan to LE 32.9 billion, customs revenues, up 8.7% to LE 15 billion, and sales tax revenues, up 9.6% to LE 22.65 billion. Current revenues, including transferred profits of state-owned enterprises, Suez Canal transit revenues, privatization, and other sources, are projected to increase 9%, from LE 25.4 billion in FY 02/03 to LE 27.7 billion in FY 03/04.

As noted above, the budget plan already calls for FY 2003/04 total expenditures to grow at double the rate of total revenues, as was the case with the last two budgets. However,

those same plans have consistently overestimated revenues. While planned sovereign revenues grew from LE 65 billion in FY 00/01 to 69 billion in 01/02 and 75 billion in 02/03, actual figures for completed fiscal years show they remained flat at LE 51 billion in 00/01 and 01/02 as Egypt's recession reduced imports, incomes, and sales. They were only LE 36.4 billion through the first three quarters of 02/03, indicating the full year figure is again likely to be well below the planning figure. Increased revenues from other sources (e.g., higher Suez Canal revenues) and cutbacks in spending are likely to close part of that gap, but we estimate that the budget deficit could be 1-2% higher than the government projections, both for the just-completed FY 02/03 and 03/04.
Egypt's expansionary fiscal policy over the past several years may have been appropriate in the context of cushioning the impact of the recession, particularly on the lower classes. However, continued growth in the deficit could crowd out credit for the private sector as the economy recovers. Economic analysts estimate that the government and public sector took 70% or more of new bank credit in 2002. That was largely due to weak private sector demand, which is likely to change if the economy turns around. Moreover, the growing fiscal deficit could affect the Central Bank's ability to control monetary policy.

The above analysis suggests the need for a comprehensive review of Egypt's fiscal policies, on both the revenue and expenditure side. Addressing the growing size of direct and indirect subsidies for commodities (particularly energy, as noted elsewhere in this report) will be a particular challenge. The ruling National Democratic Party's economic platform, issued in September 2002, called for more targeting of subsidies, but little progress has occurred since then. The government committed at the Donors Consultative group meeting in February 2002 to perform a public expenditures review, but has not yet set a date to begin it.

Plans for revenue reform are proceeding, albeit slower than anticipated. The Government originally had announced plans to introduce new personal and corporate income tax legislation in the parliamentary session running from November 2002 to June 2003 that would reduce corporate tax rates from above 40% to an average of around 30%. More recently, the Minister of Finance said the Government would instead introduce comprehensive legislation targeting customs and tariff reform as well as income tax reform in the next session of parliament starting in November 2003. Work on the tariff and sales tax legislation, however, is still in the early drafting stages. The government's expectation is that lower, more uniform, and more transparent rates, combined with better enforcement, will stimulate growth, reduce tax evasion, and increase revenues in the mid to long term.

Monetary Developments: The Government has been seeking a new monetary and foreign exchange policy since it abandoned in mid-2000 its fixed peg of LE 3.4/$, which had been in place since the early 1990s. The peg had been successful in reducing inflation to low single digits, but proved untenable in the late 1990s as the pound became overvalued by at least 35% and Egypt's balance of payments position deteriorated. Attempts to defend the peg led to a sharp drawdown in foreign exchange reserves and corresponding increases in interest rates beginning in 1999. After abandoning the fixed peg, the government first pursued a crawling or adjustable peg system, using a central rate determined by the Central Bank of Egypt (CBE). Banks and exchange bureaus were allowed to sell dollars within a prescribed band around that rate. Initially set at LE 3.85/$ with a 1% trading band in January 2001, successive devaluations took the rate to LE 4.51/$ (with a 3% band) in January 2002, for a legal maximum dollar selling rate of LE 4.645/$.

None of the devaluations was successful in bringing supply and demand of foreign exchange in the legal market back into balance, as both weak foreign exchange revenues in the wake of the September 11 terrorism attacks and lack of business confidence in the Government's economic policies contributed to a growing illegal parallel market in foreign exchange. While the legal maximum price for dollars remained at LE 4.64/$ through the end of 2002, the parallel rate spent virtually the entire year at above LE 5/$, at a premium of 10% or more over the legal rate. In late 2002, and with tacit government approval, banks began adding numerous commissions to foreign exchange transactions, bringing the effective rate at which they sold dollars in line with the parallel market.

New Foreign Exchange Regime: On January 28, 2003, Prime Minister Atef Ebeid announced that Egypt would adopt a free-market exchange-rate system. Under the new system, banks would be allowed to set their own exchange rates. (The new regime is not a full float, as restrictions on external pound-denominated financial transactions limit the potential for offshore transactions.) Exchange rates in banks immediately jumped from LE 4.64/$ to around LE 5.35/$, where the parallel market had been trading. The pound continued to depreciate steadily against the dollar over the next several months, and stood at around LE 6.15/$ at the end of August 2003, a depreciation of nearly 25% vis-à-vis-the dollar (which also can be calculated as a 32% appreciation of the dollar vis-à-vis the pound) since the "float." Depreciation against the Euro, the currency of Egypt's largest trading partner, was even larger over the same period, at around 30% (43% Euro appreciation) since the pound was floated in January and 36% (53% Euro appreciation) since August 2002, because of the dollar's concurrent fall vis-à-vis the Euro. The Central Bank has not actively intervened in the market through sale of dollars, despite some expectations and CBE statements that it would do so. There are often significant spreads between the rates posted by various banks, although some banks report peer and media pressure for them to stay in line with other banks' rates.

Both the government and business hoped that the move to a more flexible rate would ease the problems of gaining access to foreign exchange, but foreign-exchange liquidity and turnover remain problems. Sales of foreign exchange to banks have increased, but slowly. Rules to govern interbank foreign exchange trading have not yet been published, and there is in practice almost no interbank trading of foreign exchange because banks are focused on meeting their own clients' needs. Firms and individuals continue to report delays in the processing of their requests to convert Egyptian pounds to foreign currency for imports, loan repayment, and other purposes, but delays are much reduced from 2001-2002. Repatriation of profits by foreign-owned companies generally has been affected much less, although occasional delays are reported. The CBE announced a new system in August 2003 to ensure swift repatriation of dividends and stock market profits. The illegal parallel market that rematerialized in late 2001 to meet the substantial gap between supply and demand at the official rate continues to operate and, in spite of the government's efforts to restrict its operation, many firms continue to resort to the illegal parallel market in order to meet their foreign-currency needs. In February-early March 2003, the parallel rate soared to as high as LE 6.80/$/$, a premium of approximately 20% over the legal rate, amid fears that moral suasion was impeding adjustment in the legal rate. That gap steadily narrowed to 2-3% by July as the parallel rate remained in the LE 6.20/$ range while the legal rate depreciated, but then the parallel rate began to creep up again. At the end of August 2003, unofficial reports put the parallel rate as high as around LE 6.50/$, a premium of around 5% over the legal rate of LE 6.15-6.20/$.

Foreign Currency Surrender Requirement: In an effort to induce foreign exchange earners to sell their dollars to the legal market, the government instituted a foreign exchange surrender requirement in March 2003 (Prime Ministerial decree 506 of 2003). Under the decree, enterprises that engage in foreign exchange-generating activities are required to sell 75 percent of their foreign-exchange revenues to banks within one week of their receipt. Firms may keep the remaining 25 percent in private accounts to meet their foreign exchange obligations. Firms whose foreign currency obligations exceed 25 percent of their foreign exchange earnings are allowed to retain a higher proportion of those earnings in foreign exchange-denominated accounts as long as they provide proper documentation to authorities.

According to the initial decree and follow-up ministerial decrees, the CBE would collect data on foreign exchange surrendered to banks in accordance with the decree, and all public and private entities were required to keep regular records of their foreign-exchange-generating business activities. Implementation and enforcement of the surrender requirement has been sporadic, however, sharply limiting its intended effect.

On the domestic liquidity front, total liquidity (M-2) grew 17.9 % year-on-year (YOY) from April 2002 through April 2003, compared to 16.2% in FY 01/02. However, if the cumulative effect of devaluation on foreign currency deposits is discounted**,** M-2 grew 9.32% April 2002-April 2003, compared to 11.7% for FY 01/02. We expect the rate for the full FY 02/03 to be similar. According to government figures, dollarization (foreign currency deposits as a percentage of total liquidity) was 27.2 % in April 2003.

The past year has seen two fairly distinct periods of monetary policy. Through the end of 2002, the Central Bank pursued a loose monetary policy focused on reducing interest rates. It cut the discount rate to 10%, while interest on deposits held at Government-owned banks and post office accounts were similarly cut. Overnight interbank rates and T-bills interest rates also fell, T-bills to under 6% and the interbank overnight rate to under 5% in December 2002. Private commercial banks cut interest rates on savings instruments but rates on loans remained high. Following the pound's "float" at the end of January 2003, rates rose slightly in February, then the Central Bank sharply tightened the money supply in March in an attempt to slow the pound's depreciation, pushing interbank and T-bill rates to 11-14%. Interbank rates remained at that level until May while T-bill rates declined somewhat more quickly. Rates have bounced up and down since then.

The government and CBE recognize that a flexible exchange regime requires a much more sophisticated monetary policy and improved technical expertise. The Central Bank Governor announced in December 2002 that the CBE would follow a policy of targeting inflation, with short-term interest rates as the operational target, and changes in reserves money the nominal anchor. The new banking law passed in June 2003 mandates a joint government-CBE monetary policy coordination committee that would set the goals of monetary policy, while the CBE would have independence in determining what monetary tools it would use in setting that policy. The CBE also has announced that it would form a Monetary Policy Committee and a monetary policy unit. A new Central Bank board of directors, including some prominent private sector financial and business experts, was named in August 2003.

The Central Bank's ability to hire and retain technically qualified staff in its monetary policy and foreign exchange trading units will be critical to the success of this effort. Development of new instruments and procedures for open market operations also will be important. Implementation of the June 2002 decree establishing a primary dealers systems for marketing of T-bills and T-bonds (see capital market section below) would be an important measure of the government's seriousness in establishing a monetary policy regime that relies more on market mechanisms such as open market operations in government securities. The growing fiscal deficit and restrictions on the use of foreign exchange reserves for market intervention could impede the CBE's ability to pursue an independent monetary policy. Recent occasions on which the CBE sold less than the announced amount in T-bills indicate this may already be the case.

Privatization: The slowdown in the Egyptian privatization program, evident since mid-2000, has been a source of concern for many economic observers, especially international rating agencies, that consider the pace an indicator of the government's willingness to move forward on economic reform. However, senior officials, including the Prime Minister and Minister of Public Enterprise, continue to emphasize Egypt's commitment to the program. The Ministry of Public Enterprise (MPE) announced in late 2002 an effort to gradually privatize some state-owned enterprises by participation of private investors in capital increases for the companies. The MPE also announced it would retain the services of foreign and domestic financial advisors to assist it in the privatization program. Nevertheless, progress remained slow over the past year through August 2003. As of March 2003, 193 entities had been privatized since 1993, generating proceeds of LE 17.1 billion. However, only 10 deals valued at LE 346 million were completed in 2002, including asset sales, anchor sales and sales to employee shareholders associations, compared to an annual average of 25-30 transactions worth LE 2.5-3.5 billion from 1996 through 2000. During the first quarter of 2003, the only privatization transactions were the leasing of two minor state-owned assets to private firms.

Further steps towards divesting the government's still-extensive ownership in key sectors of the economy would attract more foreign investment to modernize production capabilities, allow the private sector to pursue a more active role in economic activity, ensure more efficient allocation of economic resources, and increase local and ultimately external competitiveness.

Balance of Payments: Egypt's Balance of Payments (BOP) has continued to improve over the past year. The overall BOP deficit of $447 million in FY 01/02 was smaller than FY 00/01's deficit of $871 million which we had reported as the best in several years. The trade and current account balances also turned in their best performances in at least five years, but the Capital Account continued its up and down performance. Figures for the first nine months of the fiscal year FY 2002/2003 (July-March) show continued improvement in the Current Account and Overall Balance, but a substantial deficit in the Capital Account. Through mid-2002, the main factor in this improved performance was a sharp decline in imports, from $17.8 billion in FY 99/00 to $14.6 billion in 01/02, rather than any improvement in merchandise or service exports. That picture has changed somewhat over the past year. Imports through the first nine months of FY 02/03 were up slightly over the same period in 01/02 ($11.18 billion vs. $10.93 billion, but the larger increase in exports (chiefly from oil prices) from $5.29 billion July 2001-March 2002 to $5.9 billion July 2002-March 2003, resulted in a further narrowing of the trade deficit. Suez Canal revenues, which had been flat for several years, surged from $1.82 billion in 01/02 to a record $2.25 billion in 02/03, while tourism also improved through nine months year on year, from $2.5 billion in 01/02 to $2.9 billion in 02/03, although still short of levels prior to September 11 ($3.3 billion in the first nine months of FY 00/01). On the strength of the increased export and service revenues, Egypt's current account surplus more than doubled year on year, from $299 million in the first nine months of FY 01/02 to $778 million during the same period in FY 02/03. Lower world oil prices and higher imports may have changed that picture for the full year somewhat, but the Current Account probably was still in surplus for the full FY 02/03.

The Capital Account, on the other hand, has continued to perform poorly over the past year. The Capital Account deficit increased from $94 million for three quarters of 01/02 to $1.88 billion for the same period in 02/03, although Egypt's floating of $1.5 billion in Eurobonds in 01/02 accounts for most of that difference. The major factor in the poor performance in 02/03 was a large net outflow in other investments, implying continued capital flight. Foreign Direct Investment improved somewhat year on year, from $428 million in all of FY 01/02 to $578 million through the first three quarters of 02/03, but still remains below levels reached in the late 1990's. Inward portfolio investment was sharply negative during the first nine months of 02/03.

The effect of the pound's depreciation should begin to be seen in higher export earnings and a slower recovery of import levels over the next year. Absent external shocks, a rebound in tourism should further buttress the Current Account balance, although it is unlikely that Suez Canal revenues will do quite so well next year. Gas exports coming on stream over the next two years also will help, but will be counter-balanced somewhat by stagnant or decreasing oil revenues absent substantial increases in world oil prices. Further improvements in the policy environment to attract more foreign direct and portfolio investment and reverse capital flight are needed to turn the Capital Account around. Likewise, without further improvements in the policy environment, even improvements in the Current Account will be short lived.

Direction and composition of trade: The European Union (EU) as a bloc remains Egypt's largest trading partner, typically accounting for around 35-40% of imports and exports. When implemented, Egypt's Partnership Agreement with the EU (see section on "Regional Integration") could result in a significantly larger volume of trade. The U.S. comes next (and is Egypt's largest trading partner as a country), accounting for around 20% of imports and 10-15% of exports. Asian countries account for around 25% of both imports and exports. Countries in the Middle East take 13% of exports and account for about 6% of imports, while Africa, Latin America and Australia account for less than 5% each of imports and exports.

Egypt's leading merchandise export is crude oil and petroleum products ($2.2 billion in 2002), followed by finished goods (chiefly textiles and apparel), and raw materials (cotton and other agricultural products). Steel exports (particularly to the U.S. and EU) grew sharply in 2002 and the first half of 2003, as Egyptian producers, their competitiveness improved by the pound's depreciation and U.S. and EU restrictions on other steel imports, looked beyond the weak domestic market. Cement producers also began to find overseas markets. Leading imports include capital goods, machinery, and agricultural commodities. Although Egyptian government officials and the media routinely decry the import of "luxury goods," consumer goods account for only about one sixth of all imports. Conversely, the decrease in imports from 2000 through 2002 fell largely on capital and intermediate goods, in line with decreases in production and domestic investment.

Chief U.S. exports to Egypt include agricultural commodities (usually around $1 billion annually), capital goods, and equipment. The value of U.S. exports shrank over the last two years, from nearly $3.8 billion in 2001 to under $2.9 billion in 2002, largely in line with the drop in overall Egyptian imports. A poor 2002 American crop and high prices decreased the U.S. share of the Egyptian wheat market from its usual 50% or more to just 25% in the 2002/03 marketing year, but those exports are expected to rebound quickly with a better U.S. crop in 2003. Egypt's exports to the U.S. have averaged $750-900 million annually in recent years, predominantly textiles, clothing, and crude oil. Egyptian steel exports to the U.S. also have increased in the past two years, from $24 million in 2001 to $94 million in 2002 and $48 million in the first half of 2003. The figure of $1.3 billion in Egyptian exports to the U.S in 2002 (based on U.S. government statistics) includes the temporary import of a traveling Egyptian antiquities exhibit valued at $444 million.

We caution that Egyptian trade and balance-of-payments data remain confusing and often contradictory. The balance-of-payments figures, for example, include the payments made by the Egyptian government to foreign oil and gas companies for their share of domestic production bought by the government and used in Egypt, and thus probably overstate imports in general. They also may include payments for transactions in which the Egyptian participant was a broker for a transaction between two other countries, as in trade figures for Iraq. Finally, balance-of-payment figures may report payments made to financial center banks (such as in New York) rather than recording the ultimate recipient, skewing the individual country trade statistics. Customs figures, on the other hand, appear to understate oil and perhaps other exports. The truth probably lies somewhere between the balance-of-payment statistics (always higher for both imports and exports) and customs figures. In reporting bilateral trade with the U.S., we have relied solely on U.S. government statistics. For other countries/regions, we have used a mixture of Egyptian customs and balance of payments figures with trading partner data.

Impact of the War in Iraq: The Egyptian government, private sector forecasters, and we expected the war in Iraq to have a major negative impact on Egypt's economy. Estimates of that impact ranged from $2 billion to as high as $10 billion. The impact was expected to fall most heavily on tourism (predictions of $1-3 billion in losses). Other predictions included losses of 10% or more in Suez Canal revenues, lower overall exports because of a cut-off in exports to Iraq (often cited at up to $2 billion annually) and higher shipping costs because of war risk insurance premiums, reduced foreign investment, and lower expatriate remittances if Egyptians workers fled the Gulf.

In fact, largely because major combat operations in Iraq ended so quickly, the impact in all these areas was much less than expected. As noted elsewhere in this report, Suez Canal revenues actually rose significantly and tourism recovered very quickly after a sharp dip in March 2003. The few Egyptian workers who left the Gulf returned almost immediately. War risk premiums were never imposed. The potential negative impact on exports to Iraq had been overstated, as most of those exports actually originated in other countries, and were simply brokered by Egyptian companies and/or transshipped through an Egyptian port. Egyptian government trade statistics show actual exports to Iraq had been $100 million or less annually. Some probable impacts are less quantifiable, such as the potential tourism increases that did not happen and both local and foreign investment decisions that were not made as people and companies waited to see what would happen. Nevertheless, using the last two years as baselines, we believe the impact on the economy was probably in the range of $1 billion/1% of GDP or less. While the post-war situation in Iraq is still evolving, further negative impact on the Egyptian economy is likely to be negligible. In the mid- to long-term, Egypt is likely to benefit from increased business opportunities in a rebuilding Iraq.

Egypt approached several donors to request balance of payments support to help counter its losses. The World Bank and African Development Bank agreed to consider again the $1 billion policy-based balance of payments loan they had offered Egypt after September 11, but which both sides later agreed not to pursue. The U.S. Congress approved an assistance package of $300 million in grant assistance and up to $2 billion in loan guarantees for Egypt as part of a larger program of assistance for the region in the wake of the war. Discussions on both of these proposed assistance packages continue.

MAJOR LEGISLATIVE DEVELOPMENTS

Egypt's parliament, the People's Assembly (PA), approved several key pieces of economic legislation in 2003, including the Telecom Regulatory Authority law in February 2003 and the Unified Labor Law and Unified Banking Law in May 2003. It also ratified the Association Agreement with the European Union signed in 2001.

New Banking Law: This comprehensive new law (Law 88 of 2003) replaces provisions from five previous laws governing banking, the Central Bank, monetary policy, and foreign exchange policy. It enshrines the principle of a market-determined foreign exchange rate and defines the governmental and Central Bank roles in monetary policy. It also mandates a number of prudential measures to strengthen the banking sector, including substantial increases in minimum capital requirements and tighter rules on lending to special interest clients. (See banking section for more details.) Implementing regulations should be published in fall 2003.

Unified Labor Law: The new Labor law (Law 12 of 2003) provides comprehensive guidelines for the recruitment, hiring, compensation, and termination of employees in Egypt. It provides increased flexibility for firms in the hiring/firing process, a key concern of domestic and foreign investors. It also outlines a number of reporting, management, and workplace safety requirements that employers must meet. It establishes a limited right of employees to strike, as well as rules and guidelines governing mediation, arbitration, and collective bargaining between employees and employers. Non-discrimination clauses are included and the employment and training of women and eligible children is regulated by the law in accordance with labor-related International Labor Organization (ILO) conventions. The law also creates a national council to discuss and establish a national minimum wage policy. The new labor law came into effect on July 7, 2003, and the Ministry of Manpower and Migration is in the process of drafting ministerial decrees implementing the law which are expected to be approved by October 2003.

Telecom Law: Egypt's Telecom Law, passed in February 2003, expands the powers of the National Telecom Regulatory Authority to issue licenses and permits, set standards for equipment, determine tariffs, and mediate disputes between telecom service providers. The new law also includes provisions to protect users rights, establish a universal services fund, and provide for the disclosure of information to promote transparency. The law is in line with Egypt's WTO obligation to end Telecom Egypt's monopoly of fixed-line services by December 31, 2005.

Other developments: Amendments and implementing regulations for the money laundering law passed in 2002 bring Egypt's code more in line with international standards. In August 2003, the government issued implementing regulations for the comprehensive intellectual property rights (IPR) law passed in 2002.

Draft income tax (corporate and personal) and competition laws, which the government had hoped would be considered in the PA's 2002/03 session, have been deferred until the session beginning in November 2003. Other draft laws likely to come up for consideration during the next session cover Small and Medium Enterprises, Capital Markets, Customs, and possibly Sales Tax revisions.

SECTORAL TRENDS AND PRINCIPAL GROWTH SECTORS

Services account for roughly 50% of Egypt's GDP, with tourism and Suez Canal revenues being particularly important.

Tourism: Tourism is Egypt's largest foreign exchange earner, as well as a key engine of growth. Officially reported foreign exchange earnings from tourism are only about 5.5% of GDP, but a 2001 report by the Egyptian Center for Economic Studies implies tourism's real direct and indirect share of GDP is 11%. The tourism sector rebounded sharply from a steep decline after the 1997 terrorist attack in Luxor to hit record levels of 5.5 million tourist arrivals and $4.3 billion in earnings in 2000, but has been negatively affected since then by a succession of external factors, including the unrest in Israel and the Palestinian territories, the September 11 terrorist attacks in the U.S., and the war in Iraq. Tourist arrivals fell by 15.6% and tourism revenues by 11.6% YOY in 2001. After a steep, post-September 11 drop-off in late 2001/early 2002, tourism arrivals rebounded sharply in the second half of 2002 to reach 5.1 million for the year. However, the composition of the tourism shifted, with budget travelers (including larger contingents from Eastern Europe and the states of the former Soviet Union) replacing some traditional higher-end tourists from Italy, Germany, and France. Thus, despite an almost 11% increase in arrivals from 2001 to 2002, revenues actually fell slightly, from $3.8 billion in 2001 to $3.76 billion in 2002, although the decline was well short of fears of a $2 billion drop in annualized tourism earnings.

Tourism arrivals and revenues also experienced a sharp decline at the onset of the war in Iraq in March 2003, falling 22% compared with March 2002, but recovered even more quickly than after September 11, with strong arrivals in April and May and the traditional influx of Arab tourists in the summer. Current projections are for 5 million or more arrivals in 2003. A return to the 2000 level of revenues may take longer, as it is likely to take a year or more before Egypt's hoteliers can reverse the deep discounting trends of the past two years, and the industry still remains vulnerable to external shocks. Nevertheless, mid- to long-term prospects for the industry are bright, given Egypt's unmatched endowment of historical monuments, coral reef-lined shores, and desert vistas. Government and private business plans to expand tourist arrivals to 9.5 million by 2005 now appear unattainable given recent events, but still are a realistic mid-term goal. The government hopes to expand tourism and services at lesser-known archaeological sites, the southern Red Sea coast, and the desert.

The prevailing domestic credit crunch and overbuilding in some resort areas has led to a slowdown in new construction and an announced moratorium on additional hotel construction in Sharm El Sheikh and Hurghada, but both these and other Red Sea resorts are likely to attract increasing numbers of tourists. They also will provide increasing opportunities for exporters of hotel equipment and environmental management services. Airports and other infrastructure being built to serve the new resorts provide additional opportunities for U.S. exports and investment (see section on "Transportation and Infrastructure").

Suez Canal revenues had been stagnant for the past several years at around $1.8 billion annually because of increased global reliance on other means of transportation (chiefly pipelines and air) for trade. Revenues in FY 01/02 remained at that level despite fears of lost revenues in the wake of September 11. There were similar concerns that the war in Iraq would lead to lower revenues as insurers charged war risk premiums and commercial carriers shunned the war zone. In fact, insurance premiums were never increased and Suez Canal revenues increased 23.7% year on year to $2.25 billion in FY 02/03. Although a substantial increase in military shipping connected with the war in Iraq accounted for much of that increase, a dredging program completed in 2001 to deepen the canal for use by supertankers also appears to have contributed to the higher revenues as Egyptian government statistics show a 10% increase in oil tonnage through the Canal in FY 02/03. Probably only part of the increase in revenues can be sustained through the next fiscal year.

Banking: The past year has seen a number of significant -- and mostly positive -- events in the Egyptian banking sector, including new management at the largest banks, efforts to improve supervision and capital adequacy, renewed talk of decreasing government ownership in the sector, and a new banking law that is likely to force a major consolidation of the sector.

The second half of 2002 saw a number of highly publicized bad debt cases that resulted in the arrest and eventual conviction of several bankers and businessmen on fraud and corruption cases. Limited demand for credit in a weak economy and the tight foreign exchange situation further damaged banks' profitability over the past year. Officially the level of non-performing debt in the banking system stood at around 16% in mid-2002. No more recent data are available. Unofficial estimates put non-performing loans at anywhere from 15-25%. The biggest problems are concentrated in the large government-owned banks.

At least partly in response to the bad debt problem, the Government has made sweeping changes in the management teams at Egypt's four largest banks, all state-owned, which control over 50% of banking sector assets in Egypt. These banks have long lagged behind some of their private sector competitors in modern banking practices. In the second half of 2002, the chairmen of three of the four banks (and some other banks with government participation) were all replaced by bankers with significant experience in international commercial banks. A new chairman for Banque du Caire, the third largest, had been appointed earlier. Those new chairmen have in turn been introducing more experienced bankers in the next level of management. The banks' boards also have been changed to include more representatives with private sector economic and business backgrounds.

To further improve information flow in the banking system, the Central Bank has insisted that all banks' branches be connected electronically, and it has started a credit information database for the banking sector. The recently passed banking law (Law 88 of 2003) also has much stricter prudential guidelines (including tighter restrictions on connected lending and maximum lending levels to individual clients/families) and more Central Bank oversight of bank management changes.

In late 2002, the CBE instructed all banks to raise their capital adequacy ratios from 8% to 10% to meet Basel II requirements. It later provided an LE 4 billion capital increase to six state-owned banks to help them improve their capital adequacy in light of increased provisioning for bad debt. The Government also has announced its intention to convert a large portion (LE 27-30 billion has been the figure mentioned in the press) of debt owed by state-owned enterprises to the largest state-owned banks into government-backed bonds, but details are not yet available. Such a step could improve these banks' asset quality and profitability. The new law sharply raised minimum capital requirements, from previous levels of LE 100 million for domestic banks and $15 million for branches of foreign banks to LE 500 million for domestic banks and $50 million for foreign branches, respectively. The law states that banks must meet this requirement within one year, which can be extended up to a maximum of three years at the CBE's discretion. It also raises minimal capital requirements for non-bank foreign exchange bureaus from one million to ten million pounds, which will have six months (up to a maximum of 18) to comply. Although implementing regulations for the law that will clarify this requirement are yet to be released, only a minority of domestic banks currently appears to meet the domestic bank requirement by any measurement. We estimate that many, if not a majority of Egypt's 57 banks eventually will be forced to close, merge or otherwise consolidate.

The manner in which that consolidation occurs will be important for Egypt's economy. The government has publicly announced its intention to reduce its holdings in "joint venture" banks (i.e., mixed private and government ownership). The new law reaffirms the government's authority to privatize state-owned banks, an issue that has been an increasing topic of discussion in Egypt. A consolidation that decreases rather than increases concentration in the banking sector would be a healthy development.

Capital Market: The Cairo and Alexandria Stock Exchange (CASE) experienced a bull market in the first half of 2003 after a very quiet 2002, but continued growth will hinge on regional stability and the pace of economic reform. CASE's performance from mid-2002 through early-2003 was characterized by stagnation, with intermittent brief rallies cut short by global, regional, and local events. The benchmark Hermes Financial Index (HFI) increased by only 3% in the period July to December 2002, reflecting the general cycle of short term activity followed by profit taking. There were several foreign and local mergers and acquisitions during the second half of 2002, chief of which was Heineken's acquisition of Al Ahram Beverages Co. for $280 million, the largest deal in the history of the Egyptian stock market. Other acquisition deals including Asian Paints' investment in SCIB Chemicals, Accor's purchase of the Gezira Sheraton Hotel and Pharco Pharmaceuticals' purchase of Amriyah Pharmaceutical Co, but none served to catalyze the market, as regional tensions dampened market sentiment. The market witnessed a turnaround with the January announcement of the new foreign exchange regime. The HFI rose 13% in the last three days of January 2003, breaking the 6000 mark for the first time since June 2001. After a brief lull, the market took off again in March. The rally continued through the first eight months of 2003, with the HFI passing the 8000-level, last registered in August 2000, in May, and even briefly hitting 9000 in July. It stood at around 8800 at the end of August 2003, up 40% since the beginning of 2003 and 65% since July 2002.

Foreign portfolio investment registered a net outflow of $206 million during the first three quarters of FY 02/03 (i.e., largely before the boom described above), compared to a net inflow of $67.3 million in the same period of FY 01/02. Anecdotal evidence, however, points to increased foreign interest in the first half of 2003. As of June 2003, the market capitalization of the Cairo and Alexandria Stock Exchange (CASE) was approximately LE 150 billion. CASE statistics say shares in 671 of 1151 listed companies were actively traded in 2002, although only 30-40 companies' shares are traded on a daily or close-to-daily basis. In the first quarter of 2003 trading of the 20 most active companies constituted 45% of trading value and 71% of trading volume. Total trading value and volume of listed securities in 2002 were LE 34.2 billion and 833.7 million shares respectively. Trading value in the first half of 2003 dropped by 19% to LE 111.2 billion compared to LE 137.5 billion in the first half of 2002 while trading volume in the first half of 2003 increased by 36.5% to 477.6 million shares compared to 350 million shares in the same period in 2002. This apparent drop in trading value despite the surge in the indices is probably attributable to the lower level of trading in bonds in 2003 compared to 2002, as anecdotal evidence says prices of most stocks have increased.

The GOE continues to introduce measures to bring Egypt’s capital market closer to international standards. Companies listed on the CASE are required to apply international accounting and disclosure standards. Stocks are supposed to be delisted from the exchange if not traded for six months. Settlement of transactions now takes three days for dematerialized issues, four days for materialized issues, and two days for 14 active stocks that are not bound by the five percent daily price movement ceiling, a significant improvement over the eleven days needed two years ago. The Minister of Foreign Trade added in 2002 an additional chapter to the executive regulations of the existing Capital Market Law 95 of 1992 on margin trading to increase liquidity and trading in the market through brokerage firms and financially solvent licensed companies. To date, however, margin trading has not become a major activity.

The Primary Dealers system decreed by the Minister of Finance in May 2002 is expected, according to government statements, to come into effect in the last quarter of 2003. The new system will allow financial institutions registered with the Ministry of Finance to underwrite primary issues of government securities and activate trading in the secondary market through sale, purchase, and repurchase agreements of government securities.

In August 2003 the international credit rating agency Moody’s announced it had teamed up with Finance and Banking Consultants International (FINBI) to form a Cairo-based joint venture, Middle East Rating & Investor Services (MERIS), to provide credit rating and research services in Egypt and other Middle Eastern countries. MERIS is expected to focus on issuing domestic market ratings and opinions of the relative creditworthiness of issuers or issues within a given country. Moody's will provide technical assistance to MERIS.

Insurance: Egypt insurance industry remains very small relative to other middle-income developing countries, with annual premiums accounting for only about 1.1% of GDP. The government reported total insurance sector assets at LE 15.3 billion at the end of FY 01/02. Four state-owned insurance and re-insurance companies dominate, as in banking, with over 70% of the market, although there are a total of 17 insurance and reinsurance companies (including at least six foreign insurance companies) operating in Egypt. If the government follows through on plans for further reform of the sector, including privatization of state-owned firms, there is likely to be substantial room for growth and foreign investment. Official valuations of the four large state-owned insurance companies, an important step towards privatization, were completed in mid-2001, but there has been little progress towards privatization since that time. The amount of insurance that each company must compulsorily reinsure with state-owned Egypt Reinsurance continues to be reduced from 30 percent to 10 percent in 2003 for non-life insurance. For life insurance, it remains at 50 percent.

Other Financial Services: Progress in implementing the mortgage law passed in 2001 has been slow. Although implementing regulations were published and a mortgage authority established in 2002, the government expects the first mortgages under the law's provisions to take place not earlier than 2004. Amendments to the law passed in 2003 will facilitate mortgage securitization and at least two non-bank mortgage companies are in the process of formation. Nevertheless, it is likely to take time and the further development of both appropriate long-term securities and other real estate market infrastructure in order for the mortgage market to fully develop. When and if mortgages become generally available, there could be a significant positive impact on the economy, particularly in relieving housing shortages and stimulating the construction and building-materials industry.

Energy: The oil and gas sector officially accounts for around 7% of GDP. Gas exploration, development, and production have been among the brighter spots in the economy over the past three years. Gas production is expected to assume even more importance over the next several years as it becomes a major export earner for Egypt. Oil production and exports, while declining, still play an important role in the Egyptian economy. Gas and oil production in the Nile Delta, offshore Mediterranean, and the Western Desert have supplemented the original Gulf of Suez base of oil production. The oil and gas sector continues to account for the bulk of foreign investment in Egypt, including such industry giants as British Petroleum, British Gas, ENI, and Shell as well as several leading independent producers, such as U.S.-based Apache. A number of other U.S.-based exploration, drilling, and oilfield services companies also work in Egypt, and this sector continues to present some of the best trade and investment opportunities in Egypt.

Crude oil production has been in decline for some years, from a high of more than 920,000 barrels per day (BPD) in 1995 to less than 631,000 BPD in 2002 and an average of 628,000 BPD in the first quarter of 2003. Proven crude oil reserves declined from about 4 billion barrels in the early 1980's to less than 3 billion in 2001, but have stabilized since then because of recent discoveries. Meanwhile, domestic consumption grew steadily through the 1990's to reach 460,000 BPD in 2001, steadily squeezing the available surplus of Egypt's largest single merchandise export. Domestic consumption has remained steady over the past two years as Egypt's economy slowed, but an expected recovery in growth will see consumption levels rising again, with a probable concomitant fall in oil exports.

On the other hand, gas production and reserves continue to rise. Over the last five years production of natural gas has increased by approximately 75 percent to reach more than 3 billion cubic feet per day (BCFD) in August 2003. Reserves have almost tripled over the past ten years to approximately 58.5 trillion cubic feet (TCF) of proven reserves. Probable reserves total another 40-60 TCF. In order to conserve scarce crude oil for export and utilize the growing gas surplus, Egypt has successfully converted 81% of its thermal power plants to gas (which now generates 63% of all electricity). Gas accounted for 48% of all hydrocarbon usage in Egypt in 2002.

There were significant oil/gas discoveries over the past year. Houston-based Apache Corporation (the largest American investor in Egypt at approximately $2 billion) found an estimated recoverable 820 BCF of natural gas and approximately 3.3 million barrels of oil and condensate in the El King-1X well in its West Mediterranean concession. This discovery holds the promise of more condensate and oil finds in the offshore Med, where gas finds to date generally had been dry (i.e., with little associated oil). In July 2003, Apache announced results for its Qasr-1X well in the Western Desert, which tested at a combined rate of 51.8 million cubic feet of natural gas and 2,688 barrels of condensates per day, the most significant gas and condensate discovery in the Western Desert in the last decade. In late May 2003, BP announced the largest oil discovery in the Gulf of Suez in 14 years, the Saqqara well, with estimated reserves of 80 million barrels and an expected average flow rate of 40,000-50,000 barrels per day.

With the new natural gas discoveries currently outpacing domestic demand, and oil export volumes and revenues on a long-term downward path, the GOE is working hard to find export markets and develop export capacity for its gas. Earlier plans to pipe gas to Israel still remain a possibility. Exports to Turkey by pipeline are also a longer-term prospect, and Egypt would have stiff competition for the Turkish market. However, Egypt has had success with a smaller pipeline deal to Jordan and several significant liquefied natural gas (LNG) projects. In late summer 2003 Egypt began gas exports to Jordan via a new pipeline from El Arish on Egypt's north Sinai coast to the Jordanian city of Aqaba. In the first year, gas exports to Jordan are expected to generate gross revenues of $70 million, increasing to $200 million annually by 2005 as the pipeline is extended throughout Jordan. Egypt is also discussing future gas sales to Lebanon, Syria, and Cyprus through an extension of the Jordanian pipeline.

Another project that will utilize gas for domestic consumption is the BP/AGIP/AGSCO natural gas liquids plant under construction in Port Said. Expected to go on line in mid-2004 at a total cost of $315 million, it will have a production capacity of 280,000 tons of propane (for export and for manufacturing of heavier compounds); 330,000 tons of butane (mainly for domestic consumption); and one million barrels of condensates annually.

LNG export projects are also proceeding apace. British Gas (BG) Group and the Malaysian state oil company Petronas are the major investors in the Egyptian LNG project located at Idku, near Alexandria, with gas to be supplied from BG-operated offshore fields. Bechtel is constructing the LNG plant. In January 2002, Gaz de France (GdF), which also holds a 5% share in the project, signed an agreement to take the entire annual production of BG's first "train," or production line (3.6 million tons per year of LNG, equivalent to about 179 BCF) for 20 years, beginning with the plant's expected start up in mid-2005. BG plans a second, identical 3.6 mmt train, which is planned to come on line by mid-2006. The output of this second train will go initially to BG-operated facilities in the U.S. during its first year of operation (mid-2006 to 2007), and subsequently its output will be split between the U.S. and Italy. As of August 2003, more than 35% of the Idku project's first train was completed.

Union Fenosa, the Spanish electric utility, heads a second consortium, with participation by the state-owned Egyptian General Petroleum Corporation (EGPC), building an LNG plant at Damietta in the eastern Nile Delta. This project is about 50 percent complete. When it becomes operational near the end of 2004, the Damietta plant will export 3.2-5.2 mmt of LNG annually, equivalent to about 140 BCF. Union Fenosa will purchase gas for this plant from the Egyptian natural gas grid. Egyptian government sources estimate that total investment in the Idku and Damietta LNG plants will reach more than $3 billion by 2006. As these plants come on line, Egypt could become the world's sixth largest LNG exporter by 2007. Gross gas export revenues are projected to increase from $100 million in sales to Jordan (via the pipeline) in 2004 to around $1.3 billion annually in 2007-08.

As another way of utilizing its gas surplus for both exports and domestic consumption, the Egyptian government created the Egyptian Petrochemicals Holding Company (ECHEM) in 2002 to develop and implement a petrochemicals industry master plan. The plan envisions the establishment of up to 14 plants on Egypt's coastline to produce intermediate petrochemicals such as propylene and linear alkyl benzene (LAB), as well as end-use consumer items. ECHEM estimates it needs $1 billion in foreign investment to implement the plan. The U.S. Trade and Development Agency is funding two feasibility studies for petrochemical plants in Egypt. Some industry observers question whether Egypt's gas production will grow fast enough to supply the planned exports and petrochemical industry as well as domestic market demand.

Domestic pricing policies play a problematic role in oil and gas supply and demand. EGPC provides gas at cut-rate prices to power plants, which in turn provide low cost power to smaller consumers. The government directly subsidizes butane cooking gas. The Minister of Petroleum has publicly estimated the cost of these direct and indirect subsides at LE 24 billion (almost $4 billion, equivalent to nearly 1/6 of total government budget expenditures) in FY 2003/04, while the Minister of Finance put the cost at LE 16.7 billion. It is unclear whether these estimates include the below-market prices at which other petroleum products are sold. For example, the price of petrol (gasoline) at the pump is well below world market prices (at one Egyptian pound/liter, about $0.16/liter or $0.60/U.S. gallon at current exchange rates). Diesel, a significant proportion of which is imported, is only LE 0.40/liter, almost certainly below the cost of production. These subsidies manifest themselves in smaller transfers from EGPC to the Government's budget, and thus have an indirect but enormous impact on government revenues and the budget balance. The cost of these explicit and implicit subsides grows as the pound depreciates and as Egypt's domestic consumption of oil increases. Addressing this growing imbalance will be one of Egypt's key economic challenges over the next several years.

Manufacturing: Egypt's manufacturing sector accounts for approximately 20% of GDP. Main sub-sectors include metallurgy, cement, fertilizers, textile/clothing, food processing, and other consumer goods. Anecdotal evidence, limited sectoral information, and a recently-established manufacturing index all point to a bottoming out of the recession or even possible a slight increase in production and sales during the first half of 2003, following production and sales trends in most manufacturing sectors in 2000-2002. The construction and building materials industries, which led Egypt into recession in late 1999, also may be among the first to find the way out. Government statistics put cement production in FY 02/03 at 28.6 million tons (mmt), compared with 26.8 million mmt in 01/02. Domestic sales actually fell from 26.5 mmt to 26.4 mmt, but Egypt has taken advantage of the pound's depreciation to increase exports (2.6 mmt in calendar year [CY] 2002, 1.45 mmt in the first half of CY 2003).

The picture for the steel industry is somewhat similar: increasing production capacity, coupled with a sharp downturn in production and domestic consumption in 2000-2001, followed by a very slow recovery in production and domestic sales and increasing exports over the past year. Egyptian steel exports to the U.S. increased from $24 million in 2001 to $94 million in 2002 and $48 million in the first half of 2003. Exports to the EU and other Middle Eastern countries reportedly also increased. Industry sources say production of steel rebars was 2.3 million tons for January-August 2002, up 1.4% year on year. Domestic consumption over the same period was 2.06 million tons, up 2% year on year.

The decline in production and sales of durable consumer goods also may have bottomed out after several bad years. Domestic automobile production in 2002 was 45,173, down 19.5% from 2001's level of 56,097, itself a steady decline from Egypt's 1999 peak of 76,066. Total sales, including imports, fell by 15.5%, from 78,919 in 2001 to 66,692 in 2002. Domestic automobile manufacturers believe the decline will end in 2003. CY 2003 first quarter sales of 15,546 vehicles, compared with 14,683 for the same period in 2002, appear to bear that out. Egypt also exported 2109 vehicles in 2002, almost all buses and heavy trucks. Sharp consumer price increases associated with the pound's devaluation in this import-intensive industry may keep the recovery slow.

Surprisingly, the industrial production index indicates that Egypt's food processing industry, which remained buoyant in 2000-2002, has declined somewhat in 2003, perhaps as a result of increased import costs and declining consumer demand. Nevertheless, the food processing industry remained an attractive target for foreign investors over the past year. Notable foreign acquisitions since mid-2002 include Kraft Corporation's purchase of Family Nutrition Company and Heineken's purchase of Al Ahram Beverages Company. Long-term prospects for this industry remain strong, given Egypt's large domestic consumer base, raw material resources, and location close to potential export markets in Europe and the Gulf.

Egypt's textile and clothing industry, the largest employer in the manufacturing sector, remains a study in contrasts. Extremely high clothing tariffs introduced in 2002 to replace a former clothing import ban remain in place to protect Egypt's state-owned clothing and textile factories, which continue to experience large losses because of outmoded equipment, over-employment, and inefficient operation. On the other hand, private clothing manufacturers, which produce largely for export, report that the pound's depreciation has made them much more competitive internationally, and they expect exports to increase. Verifiable data on production trends in the textile/clothing industry, however, are hard to come by. Egypt's price-controlled pharmaceuticals industry experienced a disastrous year. The government's reluctance to permit price increases that would reflect higher foreign exchange costs in the heavily import-dependent industry led to steep declines in profitability. Several companies posted large losses and August 2003 saw the publication of an open letter to the President from employees of several Egyptian-owned companies urging him to address the price control issue to keep their companies from becoming insolvent.

In general, we anticipate that industries which rely substantially on local inputs will recover more quickly and industries which are heavily dependent on foreign raw materials and intermediate and capital goods will face difficulties in adjusting.

Agriculture: Agriculture remains one of Egypt's most important sectors and continues to achieve steady growth rates of 3-4% per year. Growing middle-income countries generally exhibit a decline in agriculture's share of GDP and employment, and Egypt is no exception. The sector's contribution to GDP has fallen gradually from 20% in FY 86/87 to 16% in FY 01/02, and the number of Egyptians employed in the sector has fallen, from 33.8% of the total labor force in FY 90/91 to 27.2% in 01/02. The challenge for Egypt is to maintain and expand agricultural production for domestic and export markets while at the same time adding value and employment through the development of more agriculture-based processing activities.

Productivity gains since the mid-1980's, achieved through long-term government commitments to policy reform and liberalization coupled with assistance from donors (particularly USAID), have helped sharply increase grain and vegetable production, closing the gap between domestic food supply and demand. Wheat production was 6.15 million metric tons (mmt) and rice production was 3.7 mmt in 2002, little changed from

2001. Nevertheless, Egypt remains a large food importer. Egypt is a traditional market for U.S. grain exports, although U.S. wheat exports lost substantial market share in 2002-03 to other competitors, particularly France, Russia, and Ukraine. U.S. wheat prices were substantially higher than those of its competitors due to the small crop in the U.S. Cotton production decreased from 315,000 metric tons (mt) in the 2001/02 marketing year to 285,000 mt in 2002/03 because farmers opted to grow other crops that generate more revenue than cotton.

While still a small part of total exports, horticultural exports, chiefly to Europe, have become increasingly important in recent years. Egypt hopes that the Association Agreement with the European Union and development of the Toshka agricultural scheme (more on both below) will lead to large increases in fruit and vegetable exports. Food processing for both the domestic and export markets is an industry with substantial growth potential.

The South Valley Development or "Toshka" project, located in Egypt's far south, aims to irrigate some 500,000 acres of arable arid soil with water from Lake Nasser. Since 1997, the government has been building a massive pumping station and irrigation canals to transport the water for the project. Construction on the project has slowed in the past 2-3 years, but President Mubarak inaugurated the pumping station in October 2002 and all of its 21 pumping units had been installed and tested by the end of 2002. However, few are actually in operation as the water demand for cultivation is still not high. The main canal has been complete since at least 2000. Construction is proceeding on four branch canals of 28 km each, with the first two nearly completed, the third about 50% complete and work on the fourth just begun. Saudi Prince Walid bin Talal's Kingdom Agricultural Development Corporation (KADCO) owns 120,000 acres, to be managed by the U.S. firm Cadiz/Sun World (which has a 10% investment stake in the KADCO project), and is currently doing field tests on a portion of that land. This private sector project's aim is to grow fresh fruits and vegetable for export to Europe in the winter months. No other major investors are yet involved, although several Egyptian government-sponsored entities are doing field tests in the Toshka region.

Transportation and Infrastructure: Egypt Air, the country's airline company, had a tumultuous year of personnel and structure changes, exacerbated by the pound's depreciation and external events. In June 2002 a Presidential decree converted Egypt Air into a holding company with seven affiliated companies, including the airline itself, and ground, cargo, and other support services. The affiliates were set up as semi-autonomous companies with separate management, but recent statements by the Minister of Aviation imply that the government is rethinking the autonomous companies approach and that the holding company is re-exerting control over its constituent companies. Following the resignation of the airline's long-time chief in 2002, the head of the new holding company resigned in early 2003, and the new head of the airline company resigned in July 2003.

In 2003, Egypt Air signed a $750 million long term lease-purchase agreement for seven new Airbus 330s to replace older Airbus 300/600s. It purchased five additional 5 Airbus 320s for $185 million. The Airbus 320s will start being delivered in August 2003.

Reduced tourism, higher operating costs in the wake of new post-September 11 security and insurance requirements, the war in Iraq, the pound's devaluation, and the global outbreak of the disease SARS all affected Egypt Air’s operations over the past year. The holding company reported losses of LE 321 million in FY 2002/03. In an effort to cut costs, the national carrier suspended several routes, including Montreal, Beijing, Tokyo, and Osaka, and reduced the frequency of other domestic and international flights. It also dissolved its Shorouk Air charter company, a joint venture with Kuwait Airlines. Egypt Air saw some recovery by June 2003, however, because of a sharp increase in regional flights to and from Cairo carrying Arab tourists. In July 2003, Egypt Air submitted an official request to the Coalition Provisional Authority to operate flights to Iraq.

Airport and Port Modernization: After six years of planning, the GOE is finally proceeding with plans for an expansion of Cairo International Airport through construction of a new Terminal 3. Dar El Handasa, a Lebanese company, was awarded the project management contract for terminal 3 in June 2003. The Dutch company Netherlands Airports Consultants (NACO), in collaboration with Egyptian ECG, was awarded the design contract. The project, with a total cost of approximately $330 million, will be financed mainly through a $300 million World Bank loan. A cargo village will also be established. Airport expansion projects at Sharm El Sheikh airport (scheduled for completion in November 2003) and Hurghada will increase their capacity to 3 million passengers each. An upgrade of Luxor airport is also underway.

Egypt's first Build, Own, Operate, and Transfer (BOOT) airport, Marsa Alam on the southern Red Sea coast, started operations in October 2001, and is well ahead of initial traffic targets despite external events. The government's initial interest in BOOT/BOT airports and other infrastructure projects (see below) appears to be waning, however, and it is not clear whether BOOT airport projects proposed earlier for Ras Sudr, Ain Sokhna, and elsewhere will come to fruition. Instead, the government has sought international funding for traditional projects.

On the other hand, Egypt's first BOOT port project, the container port of Ain Sokhna, on the Red Sea coast 40 km south of the Suez Canal terminus, opened in October 2002 to great fanfare. It currently has four operating cargo terminals, with expectations of 20 million tons in cargo transfers and customs clearance time of two days (compared to an average of 28 days in other Egyptian ports) by 2005. The Egyptian Government frequently cites this private sector facility as a model for other ports in Egypt. The government has announced that the first Special Economic Zone to be set up under the 2002 law will be in the North Gulf of Suez, adjacent to the port.

Power: Egypt's first BOOT power generating company, the Intergen plant at Sidi Krir near Alexandria, began operating in early 2002. Two additional BOOT power plants, both owned and operated by EDF of France and rated at 680 MW, also began operations in 2002: one plant near Ain Sokhna on the Red Sea coast (began operating mid-2002) and a second one in East Port Said, at the entrance to the Suez Canal (end-2002/start-2003). No other BOOT plants are planned. The government followed the traditional method of contracting construction and arranging international loan financing for new power plant projects in North Cairo and Nobareya. There has been little mention over the past year of plans announced earlier to corporatise and eventually sell up to 49% of the Egyptian Electric Holding Company.

Information Technology and Telecommunications: The government has identified development of the information technology (IT) industry as a national priority, and the Egyptian Government and private sector are eager to engage with U.S. firms in this area. Information technology (IT) in Egypt continued to grow in 2003 despite the overall sluggish economy. The government reports that internet penetration increased from 600,000 Internet users in 2002 to over one million by early 2003, although the reliability of statistics on internet usage is questionable. A revenue sharing deal between Telecom Egypt (TE) and Internet service providers launched a subscription-free Internet service in 2002, which accounts for some of the increase in Internet usage. Officials at the Ministry of Communications and Information Technology, however, say the “Affordable PC” program is responsible for a significant portion of usage in early 2003. This program was introduced in December 2002 and allows Egyptians to purchase computers via installment payments on their phone bill. More than 20,000 computers were sold under this program during the first three months of 2003, but increased prices due to the weaker pound have dampened consumer demand and producer interest somewhat in recent months.

Human resource constraints, inadequate infrastructure, legal and regulatory hurdles for E-commerce, and lack of public awareness are constraints on the sector’s growth. The Egyptian Government is aggressively working with the private sector and foreign partners, including USAID, to address these hurdles in an effort to stimulate rapid development. Laws to govern e-commerce are in the works, including the e-signatures law, which was approved by the Cabinet and is expected to reach the legislature in November 2003. On the intellectual property front, Microsoft followed its agreement to provide licensed software to the Egyptian government with a separate agreement signed in December 2002 to provide licensed software to the Egyptian school system.

The growth of cellular phone service in Egypt is perhaps a more reliable indicator of IT market growth and potential in Egypt. Despite the weak economy over the past three years, the number of mobile phone subscribers has risen steadily, from 654,000 in October 1999 to 3.8 million in July 2002 to 4.9 million in May 2003. This compares with only 7 million fixed telephone lines in the country. Nonetheless, TE is rethinking its plan to launch Egypt's third mobile phone company despite having paid for the license in December 2002. (Private companies MobiNil and Vodafone are the two incumbent GSM phone service providers.) Current market conditions do not appear suitable for a new entrant into the market, though TE continues to believe it needs a mobile unit to enhance its market value as it prepares for privatization. The Government put earlier plans for a partial privatization of TE via the local and international stock markets on hold in 2000. Efforts to seek a strategic investor for the national company have not materialized thus far.

In June 2002, Egypt became a member of the WTO Basic Telecommunications Agreement (BTA), which commits it to allowing greater competition in its telecommunications market. In April 2003, the country joined the WTO Information Technology Agreement, which will lead to an eventual phasing out of tariffs on all IT products.

Egypt's National Telecommunications Regulatory Authority (NTRA) will oversee the application of Egypt's "universal service principle," which designates affordable telecommunication service as a right that the government should extend and guarantee equally to all Egyptian citizens. A Universal Service Fund, managed by the board of directors of the NTRA, has been established to provide financial support for the development of telecommunication services, particularly in remote and underdeveloped areas. The NTRA will also assume responsibility for the regulation of radio, television, telephone and Internet bandwidth, as well as the licensing of infrastructure and frequency usage.

ECONOMIC COOPERATION

Regional Initiatives: In June 2001, Egypt signed an Association Agreement with the European Union. Egypt's parliament ratified the agreement in March 2003, and five of the fifteen EU member states have ratified it thus far. The agreement will come into effect once the parliaments of all fifteen EU member states have approved it. When in force, it will immediately grant Egyptian exporters increased access to the European market, particularly for agricultural products. Tariffs and other barriers to European exports to Egypt will be phased out in stages. Tariffs on raw materials and capital goods for industry will drop to zero three years after the agreement enters into force; on semi-finished goods after 10 years; on consumer goods and finished products after 13 years; and on automobiles after 15 years. The agreement includes 615 million Euros in project assistance grants and 1.1 billion Euros in loans from the European Investment Bank, designed to help modernize Egyptian industry. A transitional Egypt-EU agreement designed to speed the implementation of the Association Agreement is currently being negotiated.

Egypt has trade agreements with nearly every Arab country. In January 1998, Egypt began implementing agreements reached with Arab League members in connection with the Arab Common Market treaty of the 1960s, which call for phasing out existing tariffs over a 10-year period. Long negative lists impede the effectiveness of almost all of these agreements, however. Egypt has been a member of the Common Market for Eastern and Southern Africa (COMESA) since mid-1998, and is committed to eliminating tariffs with COMESA members entirely by 2004.

In January 2003, Egypt initialed the Aghadir Agreement, the first step in a process which would establish a free trade area with Tunisia, Morocco, and Jordan. The members agreed to establish a business council comprised of representatives from the four countries to work on concluding the agreement by the end of 2003 and removing obstacles that might encounter the implementation of the agreement. This free trade area is envisioned as part of the EU's Euro-Med process.

U.S.-Egypt Trade and Investment Framework Agreement (TIFA): Egypt and the U.S. signed a Trade and Investment Framework Agreement (TIFA) in 1999. The TIFA provides a mechanism for facilitating the concrete measures needed to continue moving the two countries towards freer trade. It established a Council on Trade and Investment (TIFA Council) composed of representatives of both governments and chaired by USTR and Egypt's Ministry of Economy and Foreign Trade. The Council first met in November 1999. In June 2002, United States Trade Representative Robert Zoellick and Egyptian Minister of Foreign Trade Youssef Boutros Ghali discussed steps toward liberalizing trade between the United States and Egypt. A TIFA Council meeting followed in October 2002. That meeting resulted in the establishment of four working groups: on government procurement, customs reform and administration, sanitary/phytosanitary issues, and agricultural trade. The working groups held their first sessions in December 2002 and have met regularly since then.

U.S. Economic Assistance: The U.S. government has provided Egypt over $25 billion in economic assistance since 1975. USAID has been instrumental in putting into place the foundations for economic growth, such as infrastructure (water, wastewater, power, and telecommunications) and a favorable economic policy environment for private sector development. The recent areas of concentration of the program have included job creation, economic growth and productivity, infrastructure, education, democracy and governance, population, health and nutrition, environment, and natural resource management. USAID adopted in 2000 a new strategy that focuses on expanding the role of Egypt's private sector to help move Egypt from an assistance-based relationship to a relationship based on trade and investment. New areas of concentration under this program include the development of the information technology sector, strengthening Egypt's capacity for human resource development, trade policy capacity building, financial sector reform, and continuing efforts to enhance Egypt's business and export competitiveness.

Economic assistance levels averaged over $800 million annually from the time of the Camp David accords (1978) until mid-1998. Food aid averaged over $218 million/year stating in 1975, but ended in 1992 in light of Egypt's gains in agricultural self-sufficiency. As part of an overall revision in U.S. assistance policy, aid levels have, by mutual agreement with the Government of Egypt, been on a downward glide path since 1999. The USAID budget for Egypt for U.S. FY 2003 is USD $615 million, and the anticipated budget for FY 2004 is $575 million. Current planning is that economic assistance levels for Egypt will continue to be reduced by $40 million per year to a level of $407.5 million by 2009.

U.S. Support for Trade and Investment: The Overseas Private Investment Corporation (OPIC), the U.S. Export-Import Bank (Ex-Im Bank) and the Trade and Development Agency (TDA) are committed to supporting the growth of U.S.-Egyptian bilateral trade and investment. These agencies provide loan and insurance products and services, such as support for feasibility studies on major investments involving U.S. inputs. Several business missions from OPIC and Ex-Im Bank visited Egypt in late 2002 and the first half of 2003 to explore possibilities for increasing their activities in Egypt. Information about Ex-Im Bank, OPIC, and TDA programs is available through their head offices in Washington or through the Embassy (see below).

The U.S. Department of Commerce's Foreign Commercial Service (FCS) and the U.S. Department of Agriculture's Foreign Agricultural Service (FAS) provide assistance to U.S. exporters through their offices in Washington and in the Embassy in Cairo. The Embassy's Economic and Political Section also can provide guidance to current and potential American investors and information on current economic conditions in Egypt. See the overleaf of the front page for more information about these services.

POLITICAL ISSUES AFFECTING THE BUSINESS CLIMATE

Nature of Political Relationship with the United States: The United States and Egypt enjoy a strong and friendly relationship based on shared mutual interest in Middle East peace, stability and regional security, combating international terrorism, strengthening trade relations, and revitalizing the Egyptian economy. Multinational exercises, U.S. assistance to Egypt's military modernization program (valued at $1.3 billion annually), and Egypt's role as a contributor to various UN peacekeeping operations continually reinforce the U.S.-Egyptian military relationship. Egypt is our indispensable partner in the quest for regional peace, and it works closely with the U.S. to that end.

Political System: The Egyptian Constitution provides for a strong President elected by plebiscite for renewable six-year terms, and empowered to appoint one or more Vice Presidents, the Prime Minister, the Cabinet, and Egypt's 26 provincial governors. President Hosny Mubarak was reelected in September 1999 to a fourth 6-year term. The bicameral legislature includes the law-making People's Assembly and a consultative upper house, the Shura Council. People's Assembly elections were held in late 2000 for a five-year term and elections for one-third of the Shura Council seats were held in May 2001.

The National Democratic Party (NDP) has been the ruling party since its foundation in 1978. It effectively controls local and national government. Within its ranks are both members who favor greater economic and political reform as well as members who oppose reforms. There are more than a dozen recognized opposition parties, all of them small. A few of these parties have members in the People's Assembly and the Shura Council.

Terrorism/Political Violence: There have been no terrorist incidents in Egypt since November 1997, attributable at least in part to the concerted, successful Egyptian Government counter-terrorist campaign. Previously, extremist groups had staged attacks on Egyptian Government officials, security forces, prominent individuals, and tourists. While terrorist attacks do not pose a credible threat to Egypt's government, they could threaten the business climate and Egypt's vital tourist industry.

Violence in Israel and the Palestinian territories has not spilled over into Egypt, although pro-Palestinian demonstrations have occurred in various parts of the country. There were isolated incidents of vandalism of U.S.-linked businesses during demonstrations in April 2002. There were sporadic demonstrations around the country in the run-up to the March 2003 U.S.-led war with Iraq. During the first two days of the war there were large anti-U.S. demonstrations in Cairo but property damage was incidental and foreign businesses and property were not targeted. Periodic calls for a boycott of American goods to express opposition to American policy in the region had less impact on sales in 2003 than in 2001-02. As in the past, the impact was chiefly on high profile U.S. franchise restaurants and locally produced, U.S.-branded consumer goods. The Egyptian Government opposes the boycott and has publicly countered it by stressing the negative impact on Egyptian owners and workers. The overall security atmosphere for U.S. firms operating in Egypt remains excellent.

FURTHER RESOURCES

Additional information on economic and business issues in Egypt can be obtained from a number of sources in the U.S. and Egyptian Governments, as well as business and research institutions. Below are several websites that may be of further interest. The Embassy takes no responsibility for non-U.S. Government sites.

U.S. GOVERNMENT SITES

www.usembassy.egnet.net
Homepage of the U.S. Mission to Egypt

www.exim.gov
Export-Import Bank of the United States

www.opic.gov
Overseas Private Investment Corporation

www.usaid.gov
U.S. Agency for International Development

www.tda.gov
Trade and Development Agency

www.ita.doc.gov
Includes all homepages of International Trade Administration (ITA) entities

www.ita.doc.gov/uscs/egypt
Home page of the Commercial Service in Egypt

www.ita.doc.gov/tic
Home page of the Trade Information Center of the U.S. Department of Commerce

www.bea.doc.gov
Bureau of Economic Analysis, U.S. Department of Commerce

www.scitechresources.gov
Catalog of US Government Science and Technology-related websites

EGYPTIAN GOVERNMENT SITES:

www.alhokoma.gov.eg
Egypt's government-on-line homepage, with links to many ministries

www.presidency.gov.eg
Egyptian Presidency

www.sis.gov.eg
State Information Service

www.parliament.gov.eg
Egyptian Parliament

www.idsc.gov.eg
Home page of the Cabinet Information and Decision Support Center

www.cbe.gov.eg
Central Bank of Egypt

www.moft.gov.eg
Ministry of Foreign Trade

www.mpe-egypt.com
Ministry of Public Enterprise

www.mfa.gov.eg
Ministry of Foreign Affairs

www.capmas.gov.eg
Central Agency for Public Mobilization and Statistics (CAPMAS)

www.egyptse.com
Cairo and Alexandria Stock Exchange

NON-GOVERNMENTAL SITES

www.eces.org.eg
Egyptian Center for Economic Studies

www.amcham.org.eg
American Chamber of Commerce in Egypt

www.erf.org.eg
Economic Research Forum for the Arab Countries, Iran and Turkey

www.us-egypt.org
U.S.-Egypt Business Council

www.arableagueonline.org
Arab League Website

www.egyptbic.com
Biotech info Center –Egypt

www.ndp.org.eg
National Democratic Party (NDP) website

www.fgf-egypt.org
Future Generation Foundation website

www.wto.org/english/thewto_e/countries_e/egypt_e.htm
World Trade Organization website - Egypt Page

www.ahram.org.eg
Al Ahram Newspaper

www.elakhbar.org.eg
Al Akhbar Newspaper

www.gn4me.com/alalamalyoum/index.jsp
Al Alam Alyom Newspaper

STATISTICAL ANNEX

COUNTRY DATA

Population:	69.2 million
Population Growth rate:	1.99%
Religions:	Muslim 90% - Christian 10%
Government System:	Presidential
Languages:	Arabic
Work Week:	Sat.– Wed (gov); Sun-Thurs(bus.)

DOMESTIC ECONOMY
National Accounts
Egyptian fiscal year (July-June)
US$ billions unless stated otherwise

	FY99/00	FY00/01	FY01/02	FY02/03*
GDP (current prices, LE billion)	340	359	382	405
GDP (current prices, US$ billion)	98.7	93.3	88.1	78.7
GDP real growth rate (%) Official government figures Consensus of other estimates	 5.9 4	 3.4	 3.2 1.5	 2.5
GDP/Capita US$	1420	1530	1470	NA
Government Spending/GDP (%)	30.0	30.1	29.9	31.5
Consolidated Fiscal deficit/GDP	1.20	2.23	2.50	2.90
Inflation (%)	2.8	2.4	2.4	4.0
Wholesale Price Index (%, June of each year)	1.6	1.3	3.5	18.5**
Unemployment (%)	9.0	9.2	9.0	9.9
Foreign Exchange Reserves	15.130	14.24	14.147	14.809
Reserves/months of imports	10.2	10.4	11.6	12
Avg. Exch. Rate for LE/$	3.446	3.850	4.338	5.149
End of Period Exch. Rate (June of each year)	3.446	3.860	4.510	6.154
Debt service ratio (%)+	8.0	7.4	9.3	9.8
Total Foreign Debt/GDP	28.2	28.5	32.6	35.7++
U.S. assistance (U.S. Fiscal Year) Military Economic	2.035 1.3 0.735	1.995 1.3 0.695	1.955 1.3 0.655	1.915 1.3 0.615

*Preliminary figures for FY 2002/2003 unless stated otherwise.
** As of May 2003
+ Debt Service is ratio of external debt service to current account receipts.
++ As of March 2003

Sources: Egyptian government, IMF, World Bank, & Embassy estimates based on those sources

Key Sectoral Statistics	1999	2000	2001	2002
Tourism* Revenues (USD million) Total Arrivals (millions)	 3904 4.797	 4345 5.506	 3800 4.648	 3764 5.192
Energy and Petroleum ** Oil (crude) (avg. thous. barrels/day) Gas (bill. cubic feet/day) Electricity (mill, MKH, fiscal years)	 852 1.4 67.9	 710 1.7 72.9	 639 2.4 75.6	 631 2.6 83.0
Construction*** (million tons) Cement (local sales +exports-imports) Steel (production, rebars)	 23.1 4.053	 24.1 3.169	 25.7 3.472	 28.1 3.483

Agriculture****(million metric tons)				
Wheat	6.40	6.40	6.20	6.15
Rice (milled)	3.7	3.9	3.6	3.7
Sugar	1.4	1.3	1.4	1.4
Cotton (thousand metric tons)	233	200	310	315

* Ministry of Foreign Trade
** Ministry of Petroleum, Ministry of Foreign Trade (Elect. figures for fiscal years)
*** EFG-Hermes, Ezz Steel
**** US Dept. of Agriculture, cotton is marketing year: Aug.-Sep.

TRADE AND INVESTMENT

US$ millions

	FY99/00	FY00/01	FY01/02	FY02/03*
Merchandise Exports	6388	7078	6643	5905
Petroleum and related products	2273	2632	1903	2280
Cotton and related products	573	614	526	477
Merchandise Imports	17860	16441	14644	11177
Consumer Goods	2996	2865	2779	2011
Intermediate Goods	4210	3972	3702	3256
Capital Goods	5639	3696	3023	2456
Trade Deficit	11472	9363	8001	5272
Services (net)	5630	5588	3919	2176
Tourism Revenues	4314	4317	3423	2888
Suez Canal Revenues	1781	1843	1820	1597
Current Account Balance	(1163)	(33)	48	778
Foreign Direct Investment (flow)	1656	509	428	578
Portfolio Investment (flow)	473	260	45	(206)

*Figures for FY 2002/2003 cover three fiscal quarters July 02-March 03

Source: CBE and Ministry of Foreign Trade

US TRADE AND INVESTMENT

Calendar year

US$ millions

	1999	2000	2001	2002
U.S. Exports to Egypt	3000.8	3333.9	3564.4	2866.2
U.S. Imports from Egypt	617.6	887.7	882	1351.9*
US Trade Balance with Egypt	2383.2	2446.2	2682.4	1514.3
U.S. FDI (stock)	2210	1998	2537	2959

* Includes temporary import of Egyptian antiquities museum touring exhibition, valued at $445 million.

Source: U.S. Department of Commerce